

Welcome to the
association for project management's
 Contract & Procurement SIG's
Contract Strategy Seminar

Host :
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Objectives

For you, the participants, to be able to :

- ❖ select and develop the top level contract strategy
- ❖ Select appropriate second level options

Aim :

- ❖ To fulfil the need of project managers and project based procurement professionals, identified by participants at last year's Contracts & Procurement SIGs conference, for training on different contract strategies.

Objectives :

To give a brief overview, for each of the principal contracting strategies and their variants on :

- ❖ What they are
- ❖ What the advantages of each are
- ❖ What the disadvantages of each are
- ❖ When to use them

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Outline Agenda

- ❖ Overview of a process for developing the procurement strategy, inc. principals of risk allocation & sharing
- ❖ Priced based routes :
 - Traditional vs (Preferred) Contractor designed routes
 - Payment by Quantity : Bills of Quantities; Schedule of Rates.
 - Payment by Progress : Lump Sums; Milestones; and Activity Schedules
- ❖ Cost based routes : Cost Reimbursable; Target Cost (& derivatives); Management contracting & Construction management; Project Alliances.
- ❖ Longer term arrangements : Frameworks, Public Finance Initiatives, Public Private Partnerships (inc. Joint Ventures).

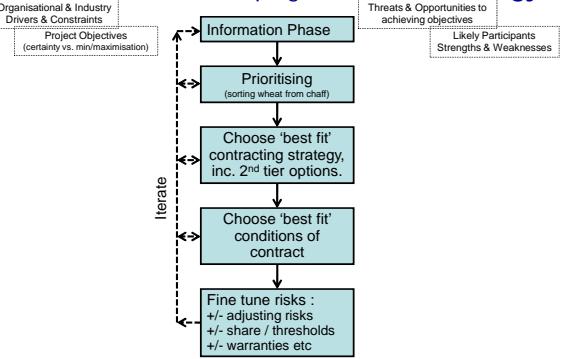
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Intro's & Wants from the ½ day.

- ❖ How many people are there from :
 - Construction, inc civil engineering
 - Heavy engineering
 - Chemical industries
 - Software development
 - Other
- ❖ Stand up and move around, so that you on a balanced table of people from different sectors.
- ❖ Introduce yourselves
- ❖ On the 2 cards provided, discuss and agree your Top 2 objectives.

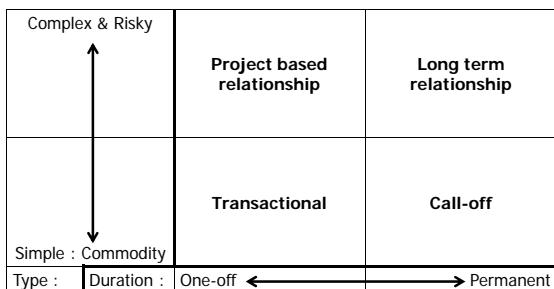
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The Process of developing a Contract Strategy



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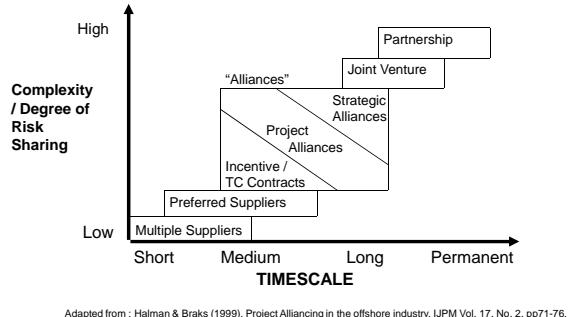
Type of Relationship



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What Sort of Contractual Relationship ?



Adapted from : Halman & Braks (1999), Project Alliancing in the offshore industry, IJPM Vol. 17, No. 2, pp71-76.

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Back to Basics : Contracts allocate Risk

A Definition of Risk :

"Risk is a source of uncertainty in achieving defined objectives, with the level of uncertainty associated with an individual risk being a combination of its likelihood and the impact of its occurrence on those objectives"

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Principles of Risk Allocation & Sharing

Consider :

- ❖ the effect on the organisations business,
- ❖ who can best influence it happening,
- ❖ for negative risk, who can best mitigate it, and
- ❖ clarity over above for minor risks.

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Price (Output) vs. Cost (Input) Based Contracts

- ❖ A **Price Based Contract** is where the basis for payment is what the Contractor has offered, regardless of what it costs him to do the work, once he has provided the output.
- ❖ A **Cost Based Contract** is where the basis for payment is what it costs the Contractor to do the work. The input is often money, but can be any unit of input e.g. dayworks.

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The *Traditional* Route : Design followed by Construction

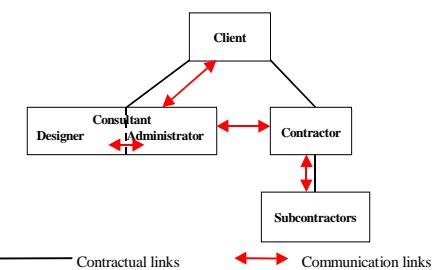
What is it ?

- ❖ The Client or his Consultant fully designs a scheme, stating all constraints etc. whilst ...
- ❖ inviting expressions of interest, before ...
- ❖ putting out to tender the fully designed scheme to Contractors, who ...
- ❖ offer a price to build the scheme, which ...
- ❖ is accepted by the Client and let to the Contractor, who ...
- ❖ builds it as designed and within any constraints,
- ❖ normally supervised by the design organisation.

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The Traditional Route : Design followed by Construction



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The Traditional Route :

Theoretical Advantages :

- ❖ Competition means the lowest price is the most economical
- ❖ Simple to audit as lowest tendered price = best value.
- ❖ The Client has designed exactly what he wants so should get exactly the finished asset that he wants
- ❖ High price certainty providing he does not change his mind once the contract is let and it is fully designed.

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The Traditional Route :

Disadvantages :

- ❖ Changes = increased Prices & Time
- ❖ Lack of Contractor design involvement may mean
 - high construction cost and / or
 - poor 'buildability' which may mean change.
- ❖ To have cash flow may mean tendering Contractors may offer Price below costs & then ...
- ❖ look to increase Prices once change happens.
- ❖ Quality of Contractor not taken into account in final selection.
- ❖ Not suitable for time driven projects.

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The Traditional Route :

Refinements :

- ❖ Contractor's involvement in design (but may exclude from construction contract)
- ❖ Alternative bids
- ❖ Detailed design left to (Sub)contractors
- ❖ Realism check on tender sums
- ❖ Tighter risk allocation, R & R's etc e.g. in NEC.
- ❖ Selection on quality and price
- ❖ 1st generation partnering e.g. workshops and mission statement, dispute ladders.

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The Traditional Route :

When to Use :

- ❖ The project is not time driven, although
- ❖ the contract for implementation may be.
- ❖ The Client knows or is particular about what he wants
- ❖ Client or Consultant has the design expertise not the Contractor
- ❖ Once let, the contract is not subject to a high degree of change.

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Contractor designed routes

What is it ? Similar to traditional route except :

- ❖ Client or Consultant only part designs or specifies works through performance or functional specifications plus reference to standards
- ❖ Ideally fewer contractors tender
- ❖ Time allowed for tenders is extended
- ❖ Selection is likely to include quality of design
- ❖ Payment mechanism is likely to be by milestones, lump sums or activity schedules.
- ❖ Sometimes designers are novated to Contractor

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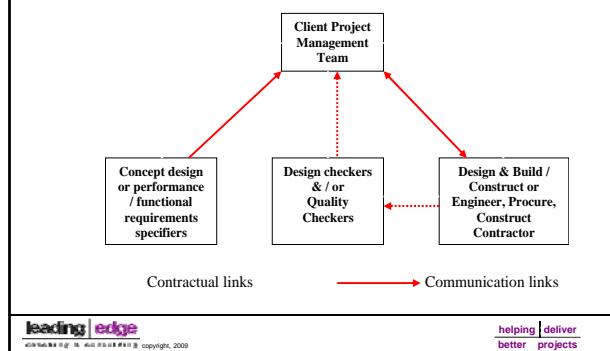
Contractor designed routes

Terminology :

- ❖ Turnkey Contracting, in the power, process and heavy engineering industries, where performance specifications are used ;
- ❖ Design and Construct in the civil engineering sector; and
- ❖ Design and Build in the building sector.

In the last two, functional specifications are used.

Contractor designed routes



Contractor designed routes

Advantages :

- ❖ Project time scales are reduced
- ❖ Price is claimed to be reduced due to
 - Improved 'buildability' and
 - Decreased interactions
- ❖ Transfer of design liability
 - less argument
 - 'fitness for purpose' on goods
- ❖ Improved Price certainty due to risk transfer.

Contractor designed routes

Disadvantages :

- ❖ Risk transfer may be expensive.
- ❖ There needs to be a clear & unambiguous statement of what is required when signing the contract, because
- ❖ Change is expensive as
 - it is hard to evaluate as there is no baseline design
 - there is little transparency of Contractor's costs
 - construction follows design quickly so knock on effects from late change are inevitable
- ❖ So Client should limit post contract role to QA

Contractor designed routes

When to Use it :

- ❖ the project time scale is tight;
- ❖ the Client wants a high price certainty and /or
- ❖ the Contractor is better placed to do and / or manage the design.

But

- ❖ the Client must know what he wants and will not initiate changes once the contract is let;
- ❖ what he wants can be stated as an outline design and / or performance or functional specification;
- ❖ significant changes and / or risk are unlikely.

The Preferred Contractor approach to Design and Build / Construct

What is it ? As per Contractor designed routes except :

- ❖ Preferred Contractor is selected earlier based on ...
- ❖ Looser design brief & / or less developed proposal by potential Contractor (more a concept design)
- ❖ Proposal is developed more jointly until Client is happy with design and accurate Price can be agreed.

The Preferred Contractor approach

Advantages vs. standard Design and Build

- ❖ Less Consultant input prior to Contractor selection
- ❖ Less Contractor design input before being selected
- ❖ Client is more sure that constructed asset will meet needs and aspirations when signing contract, so ...
- ❖ There is likelihood of changes and
- ❖ Greater insight into Contractor's costs means easier agreement over effect of any changes

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The Preferred Contractor approach

Disadvantages vs. standard Design & Build

- ❖ Client needs sufficient expertise to input into design
- ❖ More time is needed for pre-contract design development
- ❖ As time progresses, Client becomes more locked into Preferred Contractor, who can use this to negotiate up the Price.

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The Preferred Contractor approach

When to Use it vs. standard Design & Build

- ❖ the Client is sufficiently experienced to input into the design
- ❖ improved certainty over quality is needed / wanted
- ❖ increased Price certainty is wanted
- ❖ the Project is not as time driven.

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Exercise 1

Bills of Quantities : Some half truths (1)

- ❖ BoQs prompt the design team to finalise the design before the bill can be prepared.
- ❖ BoQs avoids duplication of effort in taking off quantities by Contractors, the costs of which are ultimately passed on to Clients.
- ❖ A BoQ provides commonality in tenders thus providing the opportunity for realistic tender evaluation
- ❖ The unique coding system enables contractors to utilise computers efficiently for estimating.
- ❖ The BoQ can be used as a basis for monthly interim valuations.

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Bills of Quantities : Some half truths (2)

- ❖ Rates contained in BoQs can be used as a basis for the valuation of variations.
- ❖ BoQ can assist the parties in the control and financial management of the works

As a result, straight BoQs should only be used on the simplest of work, both where cost is \propto quantity & / or the sophistication of the (sub)Contractor does not allow otherwise.

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Bill of Approximate Quantities

- ❖ Used where full Bill is not available e.g. a scope design is available.
- ❖ Often used as starting point for negotiation e.g. in *Preferred Contractor* route.
- ❖ Arguments result of suitability of rates vs. context in which tendered.
- ❖ Can be counter productive to collaboration

Method related Bills of Quantities.

Are where the Contractor is allowed to tender lump sums for fixed costs, inc temporary works and time related charges. Try to overcome the disadvantages of straight BoQs, but only partially successful because :

- ❖ they do not address some inherent drawbacks of BoQs
- ❖ Contractor can still play 'spot the rate' and 'front load' method related charges and BoQ rates
- ❖ without detailed planning information, there is still little transparency of costs to identify effects of delay and disruption.

Consequently, their successful use is dependent on the Contractor matching rates & lump sums to Costs.

Method related Bills of Quantities.

When to Use them :

- ❖ Whenever possible instead of straight BoQs, given the sophistication of the Contractor
- ❖ Where cost is more proportional to quantity once method related costs have been stripped out e.g. :
 - in building work
 - in refurbishment work
- ❖ To limit risk when changing over to a new form of contract.

Lump Sum contracts

What are they ?

- ❖ The Client may or may not give indicative quantities.
- ❖ The Contractor tenders a series of lump sums for the project which
- ❖ matches how he intends to programme the works and
- ❖ is paid according to his percentage completion against each operation at each assessment date.

Lump Sum contracts

Advantages :

- ❖ They can accommodate method-related charges for both fixed & time related costs, and as non-measurable activities and finished construction operations.
- ❖ They are therefore more suitable for contracts where there is a large element of Contractor design;
- ❖ If the Contractor takes off the quantities, then he is responsible any errors in them, so price certainty for the Client is higher;
- ❖ If there is a priced BoQ, then the evaluation of simple variations and claims is easier vs. milestone or activity schedules.

Lump Sum contracts

Disadvantages :

- ❖ There can still be argument over percentage completion e.g. work with Defects.
- ❖ Where a BoQ is in place, only the simplest changes can be evaluated using them.
- ❖ Evaluation of claims and variations for delay and disruption is hard for two reasons :
 - 'lump sum' operation tends to be a fairly broadly described, so there is little detailed pricing information to go on. This is not helped by
 - traditional conditions of contract which use lump sums not requiring detailed programmes.

Lump Sum contracts

When To Use Them :

- ❖ For simple repetitive work
- ❖ For traditional contracts where the risk of quantity variation is relatively small.
- ❖ For design & build / construct contracts. These can be technically quite complex projects, but with little client / contractor transactions between the parties. This is because once change occurs there is relatively little transparency.

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Milestone Payments.

What are they ?

- ❖ Where the Contractor is only paid for achieving specified states along the road to Completion
- ❖ These states are specified by the Client.

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Milestone Payments.

Advantages :

- ❖ As there are normally relatively few, financial administration is easy.
- ❖ Cash flow is very visible
- ❖ The Contractor has an incentive to meet his programme

Disadvantages :

- ❖ the described states are unlikely to match the Contractor's programme of construction, leading to
 - financing costs by the Contractor
 - uneconomic methods of construction
 - very little cost transparency
 - arguments over achievements of milestones

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Milestone Payments.

When to Use them :

- ❖ There is only one method of construction
- ❖ When very little change is expected
- ❖ When the Client wishes to adopt a very 'hands off' approach

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Activity schedules : What are they ?

- ❖ Effectively they are a bar on a bar chart, which the Contractor has priced.
- ❖ The activity schedule is drawn from the programme, but is a separate document
- ❖ An activity can include fixed overheads, time related charges, temporary works, materials on site as well as the permanent works.
- ❖ The Contractor is paid the price for the activity if completed by next assessment date
- ❖ Therefore, the activity schedule determines cash flow & the total Prices

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Activity schedules : what are their advantages ?

- ❖ Any significant level of design is more easily accommodated
- ❖ A more thorough tender giving greater certainty and possibly lower Prices *BUT* more costly for Contractors to prepare
- ❖ More visible cash flow for both Parties
- ❖ More realistic programming
- ❖ Cash flow incentive to keep to programme

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Activity schedules : what are their advantages ?

- ❖ Easier assessment of change / compensation events vs. bill of quantities
- ❖ BUT potential for rapid assessment lost
- ❖ Assessments of amounts due is much easier
- ❖ Less man hours needed from start of contract to settlement of final account

Two disadvantages of activity schedules vs. BoQs.

- ❖ Taking off quantities is a good check on the quality of the specifications and drawings (or Works Information in NEC speak).
- ❖ Contractors tend to over break down the activity schedule to ensure cash flow. This can be prevented with foresight.

Activity Schedules.

When NOT To Use Them :

Generally the use of activity schedules is preferable to straight and method related BoQs, except :

- ❖ when costs are more proportional to quantity. For instance in some building and refurbishment projects and
- ❖ when variations in quantity are expected and the Client is better able to bear this risk.

Exercise 2

- ❖ Go back to Exercise One
- ❖ What payment mechanism would you use for each of these contracts ?

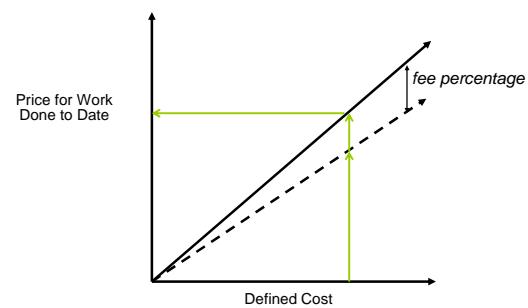
Cost Reimbursable Contracts what are they ?

Contractor is reimbursed Actual Costs plus Fee.

Fee can be expressed either as :

- ❖ a fee percentage applied to Actual Costs.
- ❖ a fixed fee.

Cost Reimbursable Contract with *fee percentage*



Cost Reimbursable Contract

Used when :

- ❖ cost is not the priority. E.g. when time & / or quality are the priority.
- ❖ the contract is subject to a combination of risk types :
 - frequently occurring
 - unable to pre-assess.
 - out of either parties control &/or
 - high value.

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Target Cost Contracts : what are they ?

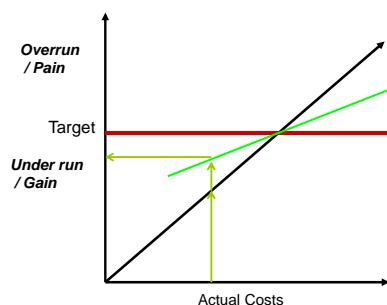
- ❖ A development of CR contracts where the *Contractor* is reimbursed Actual Costs plus the Fee.
- ❖ Any cost over or under run vs. the Target is split in pre-agreed proportions.

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Target Cost Contract

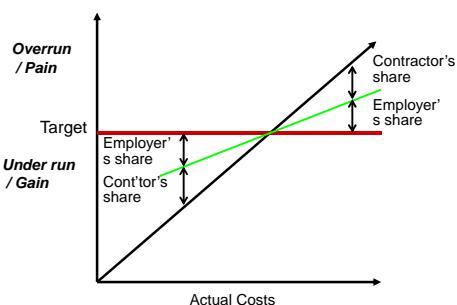


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Target Cost Contract



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Target Cost Contracts

- ❖ Traditionally used in less extreme circumstances to pure Cost Reimbursable contracts.
- ❖ Two advantages :
 - Open book accounting leads to openness in other areas. Also allows both parties to understand and work on true cost.
 - Aligns the motivations of the parties, except when adjusting target, but above gives more transparency.
- ❖ Now most frequently used contractual framework to underpin partnering e.g. NHS Procure '21 & HA Early Contractor Involvement.

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Open Book / Strategic vs. Traditional Cost Management.

Attribute	Open Book / Strategic Cost Management	Traditional Cost Management
Cost visibility	Transparent	Little to Client
Risk	Separate from Cost	Hidden
Design	Design to Cost	Cost the Design
Pricing Structure	Various Approaches	Competitive Only
Monitoring / Forecasting	More up to date.	Wait for 'claim'
Management Approach	Pro-active cost reduction	Re-active cost containment
Incentives	As appropriate	No real consideration

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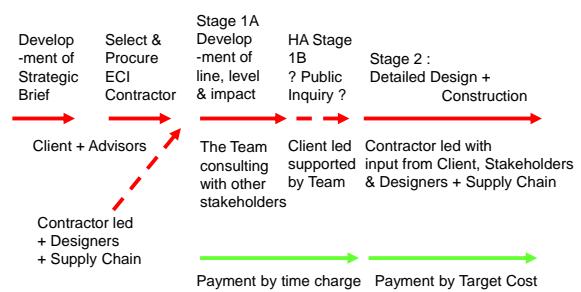
TC Contracts : Drawbacks

- ❖ The target still needs to be adjusted (but there is much greater transparency).
- ❖ If number of changes is too great then can revert to a cost reimbursable contract, but true of any form.
- ❖ Like cost reimbursable contracts, greater *Employer* involvement is needed.
- ❖ Different and unfamiliar financial systems are needed for effective administration. Less so now as use has increased.
- ❖ Above two points may mean that are uneconomical for small one-off contracts.

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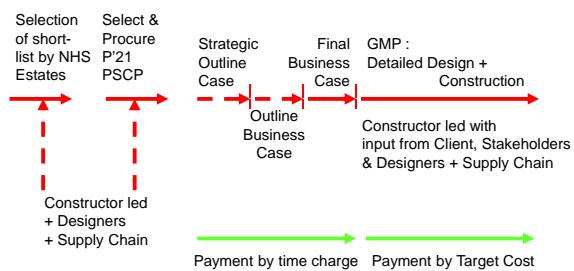
Overview of the Prime Contracting Route : E.g. HA Early Contractor Involvement



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Overview of the Prime Contracting Route : E.g. NHS Procure '21 initiative



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Exercise 3

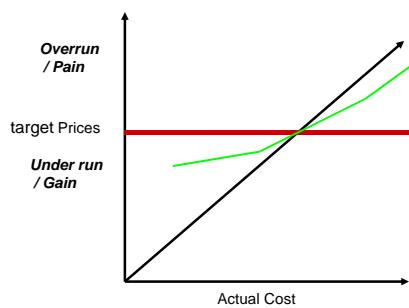
KIPs for Target Cost Contracts

- 1) Use them in the right circumstances : where both parties can contribute to managing risk (where risk can be both threat & opportunity).
- 2) Intelligently set the share profile to create alignment & reflect risk within the target Prices
- 3) Make sure all the components of the Target are realistic : Defined Cost, Fee & risk allowance

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Target Cost Contract
with variable share profile and *Employer* taking large share of over run

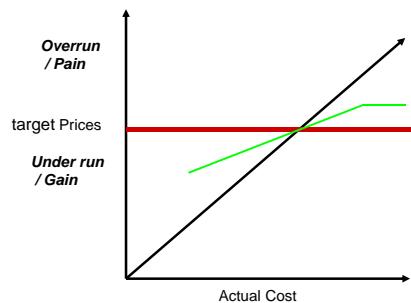


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Target Cost Contract

with cap on *Employer's share of over run* :
a Guaranteed Maximum Price (GMP)



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KIPs for Target Cost Contracts

- 4) Specify audit requirements as :
 - o a performance spec pre-contract
 - o evaluate contractors' proposals &
 - o fine tune / agree early on in contract before start spending serious money.
- 5) Ensure 'real time' financial management systems are in place for
 - o up to date monitoring of Defined Cost
 - o agreeing changes to the Prices due to CEs and
 - o forecasting out turn Defined Cost and pain / gain share.
 - o Adding in 'bells & whistles' / paring back Scope to hit Employer's budget.
- 6) Select right quantity and quality of staff with pro-active collaborative skills and culture.

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Exercise 4

For the target cost part of the projects from the previous questions, think about :

- ❖ The pain / gain share profile
- ❖ Any specific risks you might have outside the Target Prices, which would adjust it if there was a change.

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Management Contract Routes

What are they ? Arrangements where :

- ❖ the Contractor is employed, as a professional because of his management expertise, so
- ❖ does very little, if any, physical work which are let to specialist contractors
- ❖ normally these packages are under priced based routes,
- ❖ designers are either contracted direct to the Client or the Contractor.

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Management Contract Routes

When are they used ? When

- ❖ there are numerous contract interfaces, so the co-ordination of them is critical (including external interfaces)
- ❖ the Client does not have sufficient expertise & /or resources to manage the above
- ❖ the project is time driven with the Client unable to express what is wanted at the time of starting construction.

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Management Contract Routes

Advantages :

- ❖ Early Contractor input into design & programming
- ❖ Tailoring of contractual arrangement to each work package vs. 'blanket' package for whole construction, leading to
- ❖ Less risk passed to industry as each package more fully scoped / designed when let vs. design and build.

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Management Contract Routes

Disadvantages

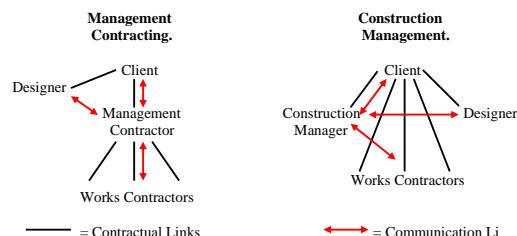
- ❖ Likely to be some over design of early packages
- ❖ Likely to be some re-work in early packages
- ❖ No Price certainty at start of construction
- ❖ Potential for duplication of roles = bureaucracy
- ❖ Benefits need to justify increased management costs.

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Management Contract Routes Two forms



Management Contract Routes

Disadvantages of Management Contracting :

- ❖ Contractor has contractual position to defend, so
 - passes risk down the contractual chain
 - defends position vs. acting in Client's best interests when change happens

Advantages of Construction Management :

- ❖ Contractor given pure professional role
- ❖ Direct contracts with Specialists and Designers

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Management Contract Routes

Disadvantage of Construction Management :

- ❖ Direct contracts with Specialists and Designers, especially with inexperienced Client, may mean ...
- ❖ Communication paths can become unclear if Roles and Responsibilities are not defined & adhered to.

Advantages of Management Contracting :

- ❖ Contractor has 'fitness for purpose' liability, so ...
- ❖ greater incentive on Contractor to perform, but ...
- ❖ Client has to state purpose at start, not change it and adopt a more 'hands off' approach.

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Characteristics of a Project Alliance.

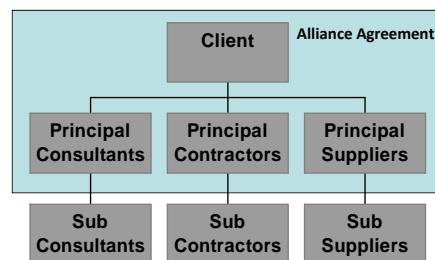
- ❖ Combination of construction management & target cost contracts & used in similar (more complex) circumstances to the former, with significant players part of the Alliance.
- ❖ Potential alliance members develop scope so can agree an alliance target.
- ❖ Each contract package is direct with Client
- ❖ Overarching alliance agreement partly ties fortunes of each member to success of project rather than individual contract.
- ❖ Incentive to partner horizontally & vertically.

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Alliance Contractual Framework



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Key Features of an Alliance

E.g. Under NEC3 Partnering Agreement (option X12)

- ❖ Key Performance Indicators (Results) are identified:
 - These can be for the project or for the individual participants.
 - Incentives can be put against these.
- ❖ There is a Core Group made up of senior members of the organisations who are members of the Alliance. They set direction, steer and confirm strategy, monitor performance etc. and are the first tier of dispute resolution.
- ❖ Partnering Information (or equivalent) is information on how the parties will work together to deliver the project. E.g. governance issues, IT, meeting frequency and agenda; organisational structure & processes etc. .
- ❖ Partners may normally join & leave the Alliance as it develops. Under PPC 2000, this is not the case (as I understand it).

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Project Alliances

When to use them :

- ❖ On large projects where a management contract might otherwise be used.
- ❖ Where there is potential for breakthrough solutions through partnering, which implies must not over constrain alliance members
- ❖ There is a limited number of 'strong' works contractors who can have significant impact on project outcomes by working together.

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Frameworks

What are they ?

- ❖ A Client selects a Contractor or Contractors for a series of as yet undefined projects usually for a set time period.
- ❖ As the time for each project approaches, it is defined and scoped up together till a budget and contract Price can be agreed.
- ❖ The Project is let, normally in a Target Cost or Project alliance format.
- ❖ Each project is heavily benchmarked and lessons learnt from one are used in the next.

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Frameworks

Advantages :

- ❖ Genuine 'Bulk purchase' discount on overheads
- ❖ Continuous improvement against performance parameters of Client.

Disadvantages

- ❖ High selection & start up costs : scale of works needs to justify investment
- ❖ Complacency sets in : robust and visible benchmarks, incentives, transparency of costs, non-exclusivity clauses need to be in place to ensure motivation, plus internal competition
- ❖ Reduced competition at end of alliance period

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Frameworks

When To Use Them :

- ❖ When there is a series of projects, whose total value is sufficient to justify the investment in selection and start up.
- ❖ When the workload will be roughly continuous and consistent.
- ❖ There is scope for (continuous incremental) improvement over time e.g. they cannot be too constrained.

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Private Finance Initiative (PFI) & Private / Public Partnership's (PPP)

What are they ?

- ❖ Evolved from fBOOT contracts : Finance, Build, Own, Operate and Transfer.
- ❖ Principal lets a concession to a Concessionaire : a consortium of banks, shareholders, suppliers, constructors, maintainers and operators for the concession period.
- ❖ The Principal is normally a government, government agency or local authority.

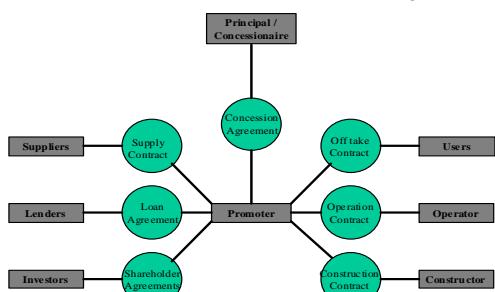
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PFI & PPP

What does it look like contractually ?



PFI & PPP types

- ❖ **Pure PFI :** normally commercially viable without financial support, sometimes identified & promoted by concession company e.g. Channel Tunnel Rail Link.
- ❖ **Part PFI :** Not commercially viable on own, so 'sweeteners', such as existing assets, included in deal. E.g. Severn & Dartford Crossing.
- ❖ **PPP :** where government holds competition and selects Concession company. Govt then pays for asset according to price formula depending on use and service quality e.g. shadow tolls on roads.

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PFI & PPP : Advantages (1)

- ❖ Reduction in borrowing (PSBR) by Principal
- ❖ Additionality : The project goes ahead when otherwise it might not and may be a better project
- ❖ Whole life efficiencies and savings : W.L.Cs built into scheme plus private sector efficiencies and innovations.
- ❖ Consistent levels of service to the User : The Principal has a contractual obligation to fund the service. The Promoter has a contractual obligation to provide a set level of service, with incentives for performance. Consistent failure may mean asset reverts back to the Principal.

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PFI & PPP : Advantages (2)

- ❖ Credibility : The willingness of people to loan money and invest in the project shows that the project is commercially viable.
- ❖ Benchmark : Public sector performance can be benchmarked against the private sector.
- ❖ Privatisation : It develops the private sector of the country.
- ❖ Technology transfer : The continuing maintenance and servicing of the asset means that the capacity is transferred to the host country.

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PFI & PPP : Disadvantages (1)

- ❖ High setting up costs : They have a highly complicated cost structure and service requirements over a 25 year-ish project. Professional fees and bid costs can be enormous. Unlikely to be worthwhile below £15 million.
- ❖ Lack of flexibility : Long term nature means hard to foresee all eventualities. Could mean high costs of change as concession goes on e.g. Healthcare projects.
- ❖ Credibility / Potential for efficiency opportunities : private sector willing to lend, so viable, but if too much opportunity realised then political backlash. If too much risk transferred, then high interest on no project.

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PFI & PPP : Disadvantages (2)

- ❖ Higher Interest Rates paid by private sector : Government can borrow as cheaply as anybody in the world and certainly less than the private sector..
- ❖ Political risk : PFI / PPP projects are opposed on ideological grounds and practical grounds : e.g. Excessive Private Sector profit (but reality is that a greater number do not make expected return !)

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PFI & PPP

When to Use Them :

- ❖ Projects above £15 million plus over the life time of concession.
- ❖ Projects of medium threat and opportunity.
- ❖ Projects with slow rates of change, both in terms of service levels and technology required.

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Joint Ventures (JVs)

What are they ? It depends upon which business sector you are in, but they take 3 forms :

- ❖ JVs for one-off projects.
- ❖ Strategic alliances where an agreement is formed for on-going business and mutual benefit.
- ❖ Partnerships whereby a new jointly owned company is set up for an on-going opportunity. E.g. The Promoter of a PFI project.

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Joint Ventures (JVs)

What are they ?

- ❖ A formal definition is "A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise." *
- ❖ As a result, the parties contribute equity and share expenses, revenue and control.

* Source : joint venture. InvestorWords.com. WebFinance, Inc.
http://www.investorwords.com/2671/joint_venture.html (accessed: July 9, 2008).

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Joint Ventures (JVs)

What are their disadvantages ?

- ❖ Time & cost to set up : in legal terms, which partially reflects the need to agree their structural form. E.g. Who contributes what, what each gets out of it, how it is managed etc.
- ❖ Potential inflexibility if over defined as the original opportunity changes and evolves.
- ❖ The time & cost to integrate culturally (for this reason strategic alliances & Partnerships are often proceeded by project based JVs).
- ❖ The majority of JVs either fail or produce disappointing returns.

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Joint Ventures (JVs)

When to use them ?

- ❖ When there is an opportunity ...
... to which the parties can contribute some 'thing' which the others have not got and ...
... the size of the opportunity is worthwhile putting the effort in to make it work.

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Reasons for JVs

Internal reasons

- ❖ Build on company's strengths
- ❖ Spreading costs and risks
- ❖ Improving access to financial resources
- ❖ Economies of scale and advantages of size
- ❖ Access to new technologies and customers
- ❖ Access to innovative managerial practices

Competitive goals

- ❖ Influencing structural evolution of the industry
- ❖ Pre-empting competition
- ❖ Defensive response to blurring industry boundaries
- ❖ Creation of stronger competitive units
- ❖ Speed to market
- ❖ Improved agility

Strategic goals

- ❖ Synergies
- ❖ Transfer of technology/skills
- ❖ Diversification

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Future Seminars ?

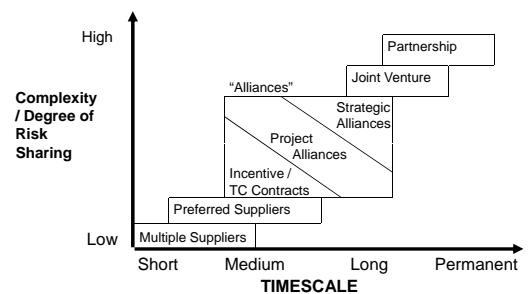
- ❖ Basic contract law ?
- ❖ Public Sector Procurement Regs ?
- ❖ Fundamentals of Supplier Development ?
- ❖ Negotiation Skills ?
- ❖ Bidding from a Suppliers Perspective ?
- ❖ The Conference is on October 1st with the theme : Innovative Selection Methodologies

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What Sort of Contractual Relationship ?



Adapted from : Halman & Braks (1999), Project Alliancing in the offshore industry, IJPM Vol. 17, No. 2, pp71-76.

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Final Review

On your tables :

- ❖ Review your original objectives : have you got them ?
- ❖ Discuss and agree your Top 3 key insights from today.
- ❖ Briefly feedback one to the main group but it can't be one that a previous group has said !

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